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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 20<sup>th</sup> April, 2023

**KFI 100 - PRINCIPLES OF MICRO ECONOMIC THEORY**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

**CONSUMER BEHAVIOUR**

Human wants are all the desires, aspirations and motives of humans. However there are those wants which can be satisfied with goods and services while there are those which cannot be bought to satisfy needs and wants. As a result of scarcity of resources the consumer cannot satisfy all his wants. He has to choose as to which want is to be satisfied first and which afterwards if resources permit. Therefore a consumer is confronted into making a choice giving rise to an opportunity cost. For instance, if someone is thirsty, he can go to the shop and satisfy his thirst by purchasing cocacola or tea or a trade-off between the two. Hence a consumer will always buy a commodity because it gives him satisfaction i.e he purchases a commodity because it has utility for him. The concept of utility was introduced in 1882 by Jevon as a basis on which an individual's demand for a commodity depends. It is subjective in nature hence it differs from one person to another.

Required: Answer the following questions based on the above case.

- a) State and explain any three characteristics of human wants (6 Marks)
- b) Explain your understanding about the 'opportunity cost', 'scarcity' and 'choice' (6 Marks)
- c) If thirst is to be satisfied using Cocacola (good 'X') and Tea (Good 'Z') where  $p_x$  is the price of Cocacola and  $p_z$  is the price of Tea and Y is the total income available for spending. Assuming the utility function for the above consumer is stated as  $U(X, Z) = 10X^{\frac{1}{2}}Z^{\frac{1}{2}}$ , and that Cocacola and Tea can be substituted for each other. Compute the marginal rate of substitution (MRS) between the two goods. (6 Marks)
- d) Utility is explained by use of indifference curves. Describe any three characteristics of indifference curves that you know. (6 Marks)
- e) State and explain any three Axioms of the Cardinalist theory of consumer behaviour. (6 Marks)

**QUESTION TWO (20 MARKS)**

- a) Abdi went to Eastleigh market to buy a suit for an upcoming wedding. What are some of the factors she must have considered before buying the suit? (8 marks)
- b) State and explain any four types of supply elasticity. (6 marks)
- c) The law of returns to scale is an analysis of production which shows the amount by which total output will change when all factor inputs change by the same proportion. Explain types of returns to scale that are applicable in production. (6 Marks)

**QUESTION THREE(20 MARKS)**

- a) Economics has been defined differently by various economists. In light to this, highlight three distinct meanings of 'Economics'. (3 Marks)
- b) i) Explain the three types of production curves. (6 Marks)
- ii) Use the production curves above to show the three levels of a production in a diagram. (5 Marks)
- c) State and explain any six causes of a leftward shift in the supply curve (6 Marks)

**QUESTION FOUR(20 MARKS)**

- a) Explain the various economic systems that you know, giving one weakness of each. (8 marks)
- b) Isoquants may assume various shapes depending on the degree of substitutability. By the support of graphs, show and explain any three types of isoquants. (6 Marks)
- c) Consider the cost function of Bamburi Cement Ltd given by Total cost (TC) =  $4Q^2 + 16$ . Find:
- i) Average cost (2 Marks)
- ii) Average variable cost (1 Mark)
- iii) Average fixed cost (1 Mark)
- iv) Marginal cost (2 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain four characteristics that would distinguish an Oligopolistic market from a pure competitive market (8 marks)
- b) Assuming a 15 percent change in quantity demanded as a result of 5 percent rise in price, calculate the price elasticity of demand and interpret your answer. (4 marks)
- c)

Price of Wheat per kg (ksh)	Demand for Wheat (kg)	Supply of Wheat (kg)
2	35	15
5	25	17
7	20	20
8	10	25
9	5	27

- From the Table above: Determine the equilibrium price as well as the equilibrium quantity demanded and supplied? (6 marks)
- d) Differentiate between the law of demand and law of supply. (2 marks)